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IN THE

Supreme Court of the United States

OCTOBER TERM, 1950.

No. 380

M. H. JACOBS CO., INC., M. H. JACOBS, SIDNEY A. TARRSON, B. B. PEN CO., INC., ALBERT J. TARRSON AND THE TARRSON COMPANY,

Petitioners,

vs.

STAHLY, INC.,

Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

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To The Honorable Fred M. Vinson, Chief Justice of The United States, and The Associate Justices of The Supreme Court of The United States:

Your petitioners, M. H. Jacobs Co., Inc., M. H. Jacobs, Sidney A. Tarrson, B. B. Pen Co., Inc., Albert J. Tarrson and The Tarrson Company, respectfully pray the issuance of a writ of certiorari to the United States Court of Appeals for the Seventh Circuit to review the judgment of that court entered in a case numbered and entitled on its docket "No. 10047, *Stahly, Inc., plaintiff-appellant* v. *M. H. Jacobs Co., Inc., M. H. Jacobs, Sidney A. Tarrson, B. B.*

Pen Co., Inc., Albert J. Tarrson and The Tarrson Company, defendants-appellees." The said judgment purports to modify and affirm a judgment of dismissal of an action brought against petitioners, but, in effect, it reverses the District Court's judgment and directs the granting of affirmative relief against petitioners.

A petition for rehearing including a request for modification of the Court's judgment (R. 105) was timely presented and was denied (R. 135-138). Although indicating that this Court should settle the substantive question involved (R. 137), the court below refused to modify its judgment and to stay its mandate to permit this application for a writ of certiorari (R. 153).

OPINIONS BELOW.

The opinion of the District Court (R. 69) is reported in 87 F. Supp. 48.

The opinions of the Court of Appeals (R. 97, 135) are reported in 183 F. 2d 914.

JURISDICTION.

1. The date of the judgment to be reviewed is June 9, 1950 (R. 103). The petition for rehearing was denied on August 15, 1950 (R. 135).

2. The jurisdiction of this Court is invoked under 28 U. S. C. § 1254 (1).

QUESTIONS PRESENTED.

1. Is a fact admission, made only for the purpose of a motion to dismiss and for summary judgment, so far binding upon the successful movant that a Court of Appeals is empowered, in affirming a dismissal of an action, to direct a District Court to take affirmative action against

the movant on the basis of that admission alone, and thus deprive the movant of a trial on the issue of fact?

2. Where all of the private rights of a plaintiff are adjudicated adversely to him and his private civil action for alleged trade-mark infringement dismissed, may a Court of Appeals, in affirming the judgment of dismissal, assume a *pro bono publico* jurisdiction over the defendant and order affirmative action against the defendant, not in aid of any right of the plaintiff, but for the alleged protection of the public?

STATEMENT.

Respondent brought suit in the United States District Court for the Northern District of Illinois, charging petitioners with (a) infringement of two registered trademarks adopted by respondent for certain mechanical razors, (b) violation of respondent's rights under State Fair Trade Laws, and (c) unfair competition (R. 3-6). The trial court, on petitioners' motion for summary judgment, held that respondent had expressly waived all its rights and entered judgment against respondent, dismissing its suit. The Court of Appeals affirmed, expressly approving all of the trial court's holdings. However, the judgment of affirmance entered by the Court of Appeals, while purporting to modify and affirm the dismissal of the action, in effect reverses and directs the trial court to take affirmative action against petitioners by enjoining them from selling "admittedly defective razors." The court's action was stated to be not in aid of any right of respondent but for the alleged protection of the public against "fraud and deception," and was based upon the supposed admission inherent in petitioners' motion to dismiss and for summary judgment and solely for its purposes, of respondent's unproved and untried allegation of defects in the razors, to which the court below attributed a conclusive finality de-

priving petitioners of an opportunity to dispute the facts and of a trial in this case.

Petitioners' motion for summary judgment and for a dismissal of respondent's action was grounded upon these undisputed essential facts:

Respondent is the owner of two registered trade-marks, "Stahly" and "Live Blade," which it has adopted for a certain type of mechanical razor (R. 4, 7, 8). Although respondent posed as the manufacturer of the devices, it did not in fact fabricate them, but, rather, contracted for their manufacture by a company known as Aircraft & Diesel Equipment Corporation, hereinafter for brevity referred to as Adeco (R. 38-44). To facilitate Adeco's manufacturing methods, respondent furnished Adeco with dies which were so constructed as to cause the aforesaid trade-marks to be directly and permanently impressed upon the goods (R. 36). Pursuant to the arrangement, Adeco manufactured and produced as a part of one continuous operation 125,000 razors, all of which were completed prior to February, 1948 (R. 36). Because both of a severe drop in the demand for these razors and of a straightened financial condition, respondent was able to receive delivery of and pay for only approximately 80,000 razors, leaving Adeco with a balance of approximately 45,000 on its hands (R. 37). These are the razors which are the cause of the controversy.

Adeco was also financially embarrassed early in 1948 and engaged in much importuning of respondent to take the balance of the razors and thus relieve Adeco's financial condition. Respondent's efforts in that direction being fruitless, Adeco negotiated for its own account a loan of $50,000.00, with the 45,000 razors as collateral (R. 37). To enable Adeco to obtain the loan, respondent not only consented to the pledge of the razors as collateral security, but, in writing, waived all claims and rights to the razors

(R. 50-51). Thus, in a document addressed to the lender, respondent acknowledged that approximately 45,000 "Stahly Live Blade" razors were in the possession of Adeco subject to respondent's order as to shipment, and in consideration of the loan to Adeco consented and agreed not to (R. 51)

> "assert any rights or claims contrary to your rights to realize upon such security as pledgee thereof, in the event of non-payment of the loan."

Adeco having defaulted in the payment of its loan, one of petitioners purchased Adeco's note and the collateral security and thereafter foreclosed on the loan and bought in the razors, still bearing respondent's trade-marks, for the amount of the note (R. 22).

Respondent's complaint did not reflect the foregoing situation; it alleged, on information and belief, that petitioners had obtained possession of approximately 45,000 razors bearing plaintiff's trade-marks, and in charging trade-mark infringement, violation of Fair Trade rights and unfair competition, specifically averred (R. 5) that the "razors are in defective condition."

Petitioners first moved to dismiss the action (R. 11, 19) and later followed with a motion for summary judgment (R. 51) by which there was brought before the trial court the undisputed facts concerning the lot of razors in question, including respondent's express consent and waiver.*

* To record their intention to make an issue of the alleged defective condition of the razors should the same become material in the case, petitioners pointed out (R. 12, 20) that the complaint failed to aver with particularity wherein the alleged defects resided and asserted that the averment of defectiveness "is a bald conclusion of plaintiff without any allegations of fact to support the same." They also presented the affidavit of B. Ch. Kelleher, president of Adeco, denying (R. 48-49) that the razors were defective and affirming that (1) they were of like kind and quality as the 80,000 delivered to and paid for by respondent and (2) they conformed to the quality and standard required under the agreement between respondent and Adeco.

The trial court was of the opinion (R. 69-70) that respondent's written consent constituted a waiver and abandonment of all rights respondent could assert as to the razors without regard to future possession by any other person, and entered an order dismissing the action (R. 71).

Upon respondent's appeal, the court below held (a) that the dismissal of the action was correct as a matter of law, and (b) that there were no genuine issues as to material matters of fact prohibiting disposition of the case by way of summary judgment (R. 97-101).

But the Court of Appeals did not affirm the dismissal of the action without more. It proceeded to consider the right of the public to be protected from supposed fraud and deceit, a right which it held to transcend the rights of an individual trade-mark owner and beyond his power to waive (R. 101). The court was of the opinion that although respondent's letter of consent operated to waive all of respondent's rights, it "could not possibly have had the effect of waiving the public's right to be safeguarded against fraud and deception." Consequently, the court held, petitioners were required to be prohibited from offering "admittedly defective" razors* to the public without

* The complaint never alleged that all of the razors were defective. On the contrary it was *claimed* only that "most" of them were in a defective condition (R. 13). This was subsequently conceded in respondent's reply to the petition for rehearing when it was said (R. 132) "Plaintiff has never alleged that all of the defendant's razors contained defective pawl springs. Plaintiff in fact had been advised that some of the razors, namely, those known as Model ....., contain proper pawl springs built to plaintiff's specifications * * *." The Court's quotation of counsel's position (R. 99), namely, that they "admit that the 45,000 razors were just as defective as plaintiff says they were," was a partial quotation only. It omitted the limiting antecedent clause, *i. e.*, "For present purposes." That statement, moreover, had been made in connection with the contention that for purposes of the motion to dismiss and for summary judgment the alleged condition of the razors was immaterial, a position in which the court below expressly concurred (R. 99).

indicating to prospective purchasers that the razors are equipped with a "defective pawl spring" and are not backed by respondent's guarantee (R. 102). The judgment of the District Court, accordingly, was "modified" in conformity with the Court of Appeals' opinion "and, so modified, affirmed" (R. 103).

Petitioners petitioned for rehearing and requested the court below to reconsider and modify its opinion (R. 107). They showed (R. 108-109) that (a) their concession with regard to the alleged defective condition of the razors was expressly limited "for present purposes," and (b) that the record disclosed their intention to make an issue of the condition of the razors, if it should become material in the case. Petitioners requested an opportunity to file an answer and proceed to trial in the District Court, pointing out that to deprive them of their day in court on the subject of the condition of the razors was contrary to law and a denial of due process, and that if a determination of any kind was to be made, petitioners were entitled to a full opportunity to be heard on the issue, "so that the District Court can, in accordance with law, try the issue and find the facts" (R. 111). Petitioners also averred (c) that the court's opinion was an anomaly in that the affirmative relief granted by the court was inconsistent with the balance of the opinion of the court (R. 112); (d) that while the court had held that respondent had waived all its rights, the court in effect had granted substantially as full a measure of relief as if respondent had not executed the waiver; and (e) that in the absence of a private right, respondent had no standing to protect the public interest and could not be allowed to sue as a vicarious avenger of the public (R. 113-117).

The Court of Appeals rendered a supplemental opinion (R. 135) denying the petition for rehearing. It recognized that petitioners' admission concerning the condition of the

razors was made for the "limited purpose" of the disposition of the motion for summary judgment, but held that it was "still binding" on petitioners because their motion had never been overruled (R. 137). The court said that *Fountain* v. *Filson,* 336 U. S. 681, on which petitioners relied, was not in point because it had not reversed the District Court; rather, it said, in affirming the allowance of the motion for summary judgment, it had indicated its belief that on the basis of admitted facts the terms of the judgment should be modified (R. 137-138).

Dealing with petitioners' point as to respondent's ineligibility to act vicariously, the court recognized (R. 136-137) that the decisions relied on by petitioners are very near and branded the distinction sought to be drawn by respondent a "tenuous one." However, it said that it had not accorded respondent the relief which it sought, and that the obvious purpose of the modification was protection of the public from "fraud and deception." The assumption of jurisdiction in a private suit was claimed on grounds of inherency by force of the Congressional declaration of policy in the Federal Trade Commission Act (15 U. S. C. 45) against "unfair or deceptive acts or practices in commerce". Adhering to its modification of the District Court's judgment, the court below concluded (R. 137):

> "If * * * it is the law that the court, because it determined that [respondent] had suffered no legal wrong, at the hands of [petitioners], was powerless to prevent the perpetration of an admitted fraud upon the public, it would seem that the Supreme Court should be accorded an opportunity so to decide."

SPECIFICATION OF ERRORS TO BE URGED.

If the writ is granted, petitioners will urge that the Court of Appeals for the Seventh Circuit erred:

1. In denying due process of law to petitioners.

2. In assigning a conclusive finality to a fact admission made by petitioners for the limited purposes of their motion to dismiss and in directing the District Court to take affirmative action thereon without affording petitioners a trial on the issue of fact.

3. In holding that the Federal Courts may assume jurisdiction in the instant private civil action, in the absence of a private right, and grant relief against petitioners, against whom the action otherwise stands dismissed, for the alleged protection of the public.

4. In failing to enter only a judgment of affirmance of the District Court's judgment.

5. In entering its judgment dated June 9, 1950.

REASONS FOR GRANTING THE WRIT.

1. The decision of the court below is directly in conflict with the decision of this Court in Fountain v. Filson, 336 U. S. 681, where it was held that judgment may not be awarded by a court of appeals on an issue as to which a party has had no opportunity to present a defense in the trial court.

The court below refused to concede the conflict. It gave lip service, in a degree, to the clear mandate of this Court in *Fountain* v. *Filson*, but undertook speciously to differentiate the instant case from the situation in that case by asserting that, unlike the Court of Appeals in *Fountain* v. *Filson*, it has not reversed the judgment of the District Court.

The assertion of the court below is indefensible. Its reasoning is far from being realistic. The "modification"

of the judgment of the District Court is to all intents and purposes a reversal. Under the judgment of the District Court, petitioners were permitted to go *sine die*. The "modification" ordered by the court below countermands this. It convicts petitioners of "fraud and deception" and orders that they be prohibited from selling "admittedly defective" razors and from perpetrating a fraud. Indisputably, all this was a reversal of the District Court.

It would seem elemental, moreover, that before the odium of "fraud and deception" and all the concomitants thereof attach to petitioners, they are entitled to a plenary trial of that issue in accordance with established legal principles. Where such a serious stigma is to be imposed, and property rights found by the court to exist in petitioners are to be taken away, the courts should be especially zealous to protect petitioners' right to a trial. Petitioners do not seek the right to sell defective merchandise. Their complaint is that they stand enjoined without a trial of any kind. Before anyone stands convicted of the stigma of fraud and his property rights are taken away, he should have a constitutional trial conducted according to the concepts of due process. The record here demonstrates beyond question that petitioners have not been fairly tried.

In *Fountain* v. *Filson* this Court held that it was error for a Court of Appeals, upon an appeal from a summary judgment dismissing an action, to direct entry of a personal judgment against the successful movant on a "new issue" as to which that party had "no opportunity to present a defense before the trial court." The interdicting principle was that of *Globe Liquor Co.* v. *San Roman*, 332 U. S. 571, and *Cone* v. *West Virginia Paper Co.*, 330 U. S. 212. There it had been held by this Court that judgment notwithstanding the verdict could not be given in a Court of Appeals in favor of a party who had lost in the trial court and who had not there moved for such relief, for

otherwise the party who won below was being deprived of an opportunity to remedy the defect which the appellate court may discover in his case. Hence, under that principle, there having been no countermotion against Mrs. Fountain, this Court held summary judgment could not go in the appellate court and that it was error "to deprive Mrs. Fountain of an opportunity to dispute the facts" material to the claim by ordering summary judgment against her.

In the instant case, petitioners' was the only motion for summary judgment; no countermotion was brought in the trial court against them. Although petitioners contended that the alleged defective condition of the razors was immaterial, they nevertheless recorded their intention to make an issue thereof if the same should be held to be material. It was held by the trial court in effect, and by the Court of Appeals expressly, that, as between petitioners and respondent, "the existence or non-existence of the alleged defect was not a material issue in this case." (R. 99.) Accordingly, when the alleged defect became material as affecting the rights of the public, this was a "new issue" as to which petitioners had not had an opportunity to present a defense.

The court below refused to remand the case to the District Court for a trial on this "new issue". Clearly, it has denied due process to petitioners and it has proceeded in a manner which directly conflicts with the controlling principle of *Fountain* v. *Filson.*

The proper appreciation of *Fountain* v. *Filson* was recently demonstrated by the Court of Appeals for the District of Columbia Circuit in *Elder* v. *Brannan,* ..... F. 2d ..... ; 14 Fed. Rules Serv. 56c58, Case 1. In that case, the defendant's motion for summary judgment had been granted but, on appeal, the Court of Appeals disagreed because in

view of certain undenied allegations judgment could not be awarded the defendant. The court thought that, on the contrary, "in the state of the pleadings" the plaintiff was entitled to summary judgment. However, it did not award such a judgment; instead, because of the possibility that defendant could raise an issue of fact as to the undenied allegations, the cause was remanded, in express due deference to the *Fountain* case, to afford the defendant an opportunity to raise the issue. If he did, the trial court was directed to "proceed to determine the issue of fact thereby created."

What precisely did this Court decide in *Fountain* v. *Filson?* Is the principle of that case as limited as has been suggested by the court below, or is the application of the principle made by the Court of Appeals in *Elder* v. *Brannan* the only true one? These questions squarely raised in the instant case require settlement by this Court; they are clearly of importance in the administration of the summary judgment rule.

The decision of the court below, moreover, deals with other important questions relating to federal procedure which have not been, but should be, settled by this Court. In issue here are the scope of federal appellate jurisdiction and its exercise in appeals from summary judgments; also the extent of the power which the courts may assume and exercise under the federal summary judgment procedure.

By its decision the court below has assumed the power to assign finality to a limited fact admission made for the purposes of a motion for summary judgment and to direct the District Court to act, on that admission alone, against the movant, even though he has prevailed on the motion. That power is not expressed in Rules 12(b) or 56 F. R. C. P.; neither does it seem to be there, or anywhere else, by implication. So far as we have been able to as-

certain, it was unheard of under the demurrer practice at common law and in chancery matters.

If the assumption of power made by the court below is legally untenable, this Court should say so. Aside from the clear injustice imposed here upon petitioners, it is easy to conceive of other situations to which the rationale of the Court's decision may be applied and with hitherto unsuspected and dire results. Thus, in a private civil action for damages under the Clayton Act (15 U. S. C. § 15), a defendant might well obtain a summary judgment dismissing the plaintiff's action, only to find himself enjoined by the court, without a trial, because for purposes of his motion he admitted a violation of the Antitrust laws. Nor does the rationale appear confinable to action taken by the courts only in the public interest. What would prevent a court from assuming the same power for the benefit of a private party? For example, in a suit brought by A against B, upon an alleged debt, may summary judgment be awarded in B's favor, but judgment nevertheless entered, without a trial, against B in favor of C, a non-party, for a certain sum of money because for purposes of B's motion it was admitted that B owed this sum to C?

The adoption into federal practice of the summary judgment procedure was salutary indeed. Experience under Rule 56 has proved its wholesome and remedial purposes. Accordingly, continued resort to the procedure in clear cases should be encouraged rather than discouraged, so that the dispatch of business in the district courts may be facilitated and unnecessary congestion and crowded trial dockets avoided.

But, the concomitant of the expansion of power assumed by the court below is the lurking danger, so well expressed in 19 Law Week 1034 (Sept. 12, 1950), with reference to the instant case, that while the battle may be won, the war will

be lost. Such a danger hardly encourages resort to the summary judgment rule.

The decision of the court below, therefore, imposes a serious burden upon a litigant desiring to avail himself of the summary judgment procedure. If the decision is erroneous, the error should be immediately rectified, for if allowed to stand, it will tend to suppress use of, and will have a far-reaching effect in nullifying, the rule providing for summary judgments.

Because of the frequency of use of the summary judgment procedure, a final determination by this Court of the questions squarely raised in the instant case is of importance for the future guidance of litigants in their resort to that procedure, as well as of the courts in carrying out their functions and in administering the rule which provides for it.

Examination by this Court of all of the implications of the rule providing for the summary judgment procedure is in our submission clearly required.

2. The decision of the court below is directly in conflict with the decision of this Court in Mosler Safe Co. v. Ely Norris Safe Co., 273 U. S. 132, and with that of the Sixth Circuit Court of Appeals in American Washboard Co. v. Saginaw Mfg. Co., 103 Fed. 281, and that of the Second Circuit Court of Appeals in California Apparel Creators, et al. v. Wieder of California, Inc., 162 F. 2d 893, wherein it was held that absent a private trade-mark or property right, a plaintiff has no standing to protect the public interest.

For all practical purposes the conflict was conceded by the court below when it admitted that the foregoing cases, and others cited by petitioners, were "very near" to the instant case, and that respondent's attempted distinction was a "rather tenuous one." The existence of the conflict and, indeed, of a confused application of principles announced by this Court is emphasized by the reliance by the

court below upon *Champion Spark Plug Co.* v. *Sanders*, 331 U. S. 125, and *Prestonettes* v. *Coty*, 264 U. S. 359* as supporting "inherent power" to frame a decree in such a manner as to protect the public against the continuation of unlawful acts and practices, and this "without regard to violation or nonviolation of any rights of plaintiff."

That the question is in dispute and will remain so until settled by this Court is plainly indicated by the statement of the court below that if the law is otherwise than as applied in the instant case, this Court "should be accorded an opportunity so to decide."

The basic question is simple enough. If, as held by Mr. Justice Brandeis, in *Federal Trade Commission* v. *Klesner*, 280 U. S. 19, 27, "protection of the public is an incident of the enforcement of a private right" in a suit by a private trader to enjoin unfair competition, do the courts have inherent power in such a private suit to protect the public without regard, as held by the court below, "to violation or nonviolation" of the private right? May jurisdiction be assumed in a private action, on grounds of inherency, by force of the declared policy of the Federal Trade Commission Act? Obviously not, since by the express provisions of 15 U. S. C. § 45, the sole jurisdiction of the courts is to review proceedings originating before the Commission (see Appendix, post, p. 23).

The decision below is believed to be erroneous and the conflicting decisions of this Court and of the Second and Sixth Circuits correct. Moreover, the absence of a private right presents, we believe, a constitutional flaw in the jurisdiction of the courts to enter a decree in a private suit, to protect the public interest. Of these in turn:

(a) In *American Washboard Co.* v. *Saginaw Mfg. Co.*,

* Together with such cases as *Horlick's Malted Milk Corp.* v. *Horlick*, 143 F. 2d 32 (C. A. 7) and *Du Pont Cellophane Co.* v. *Waxed Products Co.*, 85 F. 2d 75 (C. A. 2).

103 Fed. 281 (C. C. A. 6), the plaintiff sought to enjoin defendant from unfair competition in selling its goods so as to defraud or deceive the public. The court in deciding for the defendant, said (p. 285):

> "* * * the private right of action in such cases is not based upon fraud or imposition upon the public, but is maintained solely for the protection of the property rights of complainant. It is true that in these cases it is an important factor that the public are deceived, but it is only where this deception induces the public to buy the goods as those of complainant that a private right of action arises.
>
> * * * * *
>
> "It is doubtless morally wrong and improper to impose upon the public by the sale of spurious goods, but this does not give rise to a private right of action unless the property rights of the plaintiff are thereby invaded. There are many wrongs which can only be righted through public prosecution, and for which the legislature, and not the courts, must provide a remedy. Courts of equity, in granting relief by injunction, are concerned with the property rights of complainant."

In the similar *Ely-Norris Safe Co.* v. *Mosler Safe Co.* litigation, the District Court, following the *American Washboard* case, dismissed the plaintiff's bill and held that the representations such as were sought to be enjoined did not give a private cause of action. Upon appeal (7 F. 2d 603 (C. C. A. 2)), Judge Learned Hand, after carefully reviewing the pertinent law, concluded that unless the plaintiff has a private right of action he cannot maintain a suit, saying (p. 604):

> "* * * He may not recover at law, and the equitable remedy is concurrent. The law does not allow him to sue as a vicarious avenger of the defendant's customers."

The court, however, found that the plaintiff had been injured, and therefore held for the plaintiff.

This Court, in its decision in *Mosler Safe Co.* v. *Ely-Norris Safe Co.*, 273 U. S. 132, reversed the Court of Appeals and dismissed the suit on the ground that despite the fraud on the public, plaintiff could show no injury to itself. Thus Mr. Justice Holmes for this Court said (p. 134):

> "* * * If on the other hand the representation was false as it is alleged sometimes to have been, there is nothing to show that customers had they known the facts would have gone to the plaintiff rather than to other competitors in the market, or to lay a foundation for the claim for a loss of sales."

Here is a definite holding that where, as in the present case, no rights of the plaintiff are violated, the judgment must be for the defendant despite any alleged fraud on the public.

This doctrine was reaffirmed recently in the very pertinent case of *California Apparel Creators, et al.* v. *Wieder of California, Inc., et al.*, 162 F. 2d 893 (C. C. A. 2). In support of the charge of unfair competition, plaintiffs alleged that the defendants were deceiving the public by selling inferior goods. Defendants brought a motion for summary judgment which was sustained. In attempting to reverse the granting of summary judgment against them, plaintiffs relied strongly upon the fact alleged by them that the public was deceived by the acts of the defendants. The court, speaking through Judge Clark, first pointed out that the public had adequate means of protection (p. 896):

> "* * * So far as the consumer is concerned, he is not dependent upon the private remedial actions brought by competitors; for the remedies under the Federal Trade Commission Act, at least as amended in 1938, 15 U. S. C. A. § 45, are now extensive, and are employed by the Commission to prevent misleading of the public as to the origin of an article sold at retail. Here, therefore, we are concerned only with the remedial rights of individual businesses and whether or not such businesses have been damaged by the unfair competition of the defendants."

The court after discussing the law, including the *American Washboard Company* case and the *Ely-Norris Company* case, concluded (p. 900):

> "This decision and the implication from the two opinions, construed together, have been widely accepted as prevailing law. They constitute significant emphasis upon the need of individualizing the injury asserted, and thus point to the weak element of the plaintiffs' case here. To recover damages or to receive protective relief against the actions of these defendants, plaintiffs must therefore show not only a representation by defendants which is false and deceitful in the sense of luring customers to their doors wrongfully, but also that plaintiffs have lost their own rightful custom thereby."

The court specifically discredited the idea that a private party may be a "vicarious avenger of the public", pointing out that this is the role of the Federal Trade Commission (see note 11, p. 900).

The opposing view is not supported by the decisions used for that purpose. These decisions plainly afford no basis for a holding that in a private suit violation of the plaintiff's private right is immaterial.

In the *Champion Spark Plug* case (331 U. S. 125), the District Court had found infringement of the plaintiff's trade-mark and the Court of Appeals held that "respondents not only had infringed petitioner's trade-mark but also were guilty of unfair competition." Thus, private rights were protected.

The complaint in the *Prestonettes* case (264 U. S. 359), was not dismissed in the District Court. That court had refused the preliminary injunction as prayed by the complainant, but it had ordered limited restrictions, in furtherance of the complainant's interests, under which the defendant was permitted to use the trade-mark. The Court of Appeals reversed and granted an absolute injunction

against the use of the mark except on the original package. This Court reversed, thinking that the appellate court had gone too far. There is nothing in the decision supporting the notion that a private right is immaterial.

In the *Horlick's* case (143 F. 2d 32), the defendant was charged with trade-mark infringement and unfair competition. The District Court found no infringement of the plaintiff's registered trade-mark, but considering the defendant guilty of unfair competition with the plaintiff, granted relief against certain of defendant's actions (50 F. Supp. 417). The Court of Appeals (Judges Kerner and Lindley—Judge Minton dissenting) specifically held that the defendant had the right to use the name "Horlick," but enjoined him from doing so except in combination with his first name. To protect the plaintiff from unfair competition, to eliminate the possibility of confusion, and in aid of the "commercial magnetism of plaintiff's trademark" the defendant was also required to make changes in its label and give other notices. Clearly, the case upheld the private right of the plaintiff.

In the *Cellophane* case (85 F. 2d 75), the District Court had upheld the plaintiff's trade-mark and had enjoined the defendant from using the word "cellophane" in connection with any product not made by the plaintiff (6 F. Supp. 859). Finding that the mark had become generic, the Court of Appeals held that the plaintiff's rights were required to be based "upon a wrong which the defendant has done to it by misleading customers as to the origin of the goods sold and thus taking away its trade." Accordingly, although defendant was permitted to use the word unconditionally in dealing with those "to whom it means no more than the product," defendant was nevertheless required, in aid of plaintiff's private right, to state, when filling orders, that the product was that of Sylvania or whosoever was the maker. While the decree was modi-

fied, an accounting in aid of the plaintiff's right was nonetheless ordered as to such sales as were made by defendants "to persons who, having expected to get Du Pont Cellophane, received that of the other manufacturers."

(b) The jurisdiction of courts of the United States is limited by the Constitution to cases or controversies (Constitution, Article III, Sections 1, 2). The case or controversy must be an actual one. *Coffman* v. *Breeze,* 323 U. S. 316; *Aetna Life Ins. Co.* v. *Haworth,* 300 U. S. 227; *Willing* v. *Chicago Auditorium,* 277 U. S. 274; *Liberty Warehouse* v. *Grannis,* 273 U. S. 70; *New Jersey* v. *Sargent,* 269 U. S. 328. An absolute *sine qua non* of an actual controversy is the initial and continued existence of adverse parties asserting adverse interests. *Muskrat* v. *United States,* 219 U. S. 346; *Lord* v. *Veazie,* 8 How. 251; *Cleveland* v. *Chamberlain,* 1 Black 419; *South Spring Gold Co.* v. *Amador Gold Co.,* 145 U. S. 300.

In *Lord* v. *Veazie* there was "no real dispute between the plaintiff and the defendant." Their interests were the same, and the parties were attempting to procure the opinion of this Court on a question of law. The writ of error was dismissed because this Court held that there "must be an actual controversy, and adverse interests." A judgment under such circumstances was stated to be "in the eye of the law * * * no judgment of the court." In the *Chamberlain* case, the defendant acquired the plaintiff's interest after the suit had been prosecuted to judgment in the trial court, but the result reached was the same as in *Lord* v. *Veazie.*

Under the controlling principle of these and the other cases, the continued existence of adverse parties is required. Accordingly, when the Court of Appeals affirmed the dismissal of respondent's action, it disposed of the only case or controversy over which the courts had jurisdiction and which had been presented for adjudication.

The Court of Appeals was, in a constitutional sense, powerless to go beyond that dismissal. To order relief in favor of the public in a private suit wherein a private right does not exist constitutes an unwarranted usurpation of power and assumption of jurisdiction.

CONCLUSION.

This petition for a writ of certiorari should be granted.

Respectfully submitted,

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ARTHUR B. SEIBOLD, JR.,
Counsel for Petitioners.

Chicago, Illinois,
October 23, 1950.

APPENDIX.

STATUTES INVOLVED.

The pertinent provisions of the statutes which are necessary to be considered are·

Section 5 of the Federal Trade Commission Act (Act of Sept. 26, 1914, c. 311, § 5, 38 Stat. 719, as amended; 15 U. S. C. § 45):

(a) Unfair methods of competition in commerce, and unfair or deceptive acts or practices in commerce, are hereby declared unlawful.

The Commission is hereby empowered and directed to prevent persons, partnerships, or corporations, except banks, common carriers subject to the Acts to regulate commerce, air carriers and foreign air carriers subject to chapter 9 of Title 49, and persons, partnerships, or corporations subject to sections 181-203, 205-228 and 229 of Title 7, except as provided in section 227 of said title, from using unfair methods of competition in commerce and unfair or deceptive acts or practices in commerce.

Proceeding by Commission; modifying and setting aside orders.

(b) Whenever the Commission shall have reason to believe that any such person, partnership, or corporation has been or is using any unfair method of competition or unfair or deceptive act or practice in commerce, and if it shall appear to the Commission that a proceeding by it in respect thereof would be to the interest of the public, it shall issue and serve upon such person, partnership, or corporation a complaint stating its charges in that respect and containing a notice of a hearing upon a day and at a place therein fixed at least thirty days after the service of said complaint. * * *

Review of order; rehearing.

(c) Any person, partnership, or corporation required by an order of the Commission to cease and desist from using any method of competition or act or practice may obtain a review of such order in the circuit court of appeals of the United States, within any circuit where the method of competition or the act or practice in question was used or where such person, partnership, or corporation resides or carries on business, by filing in the court, within sixty days from the date of the service of such order, a written petition praying that the order of the Commission be set aside. A copy of such petition shall be forthwith served upon the Commission, and thereupon the Commission forthwith shall certify and file in the court a transcript of the entire record in the proceeding, including all the evidence taken and the report and order of the Commission. Upon such filing of the petition and transcript the court shall have jurisdiction of the proceeding and of the question determined therein, and shall have power to make and enter upon the pleadings, evidence, and proceedings set forth in such transcript a decree affirming, modifying, or setting aside the order of the Commission, and enforcing the same to the extent that such order is affirmed, and to issue such writs as are ancillary to its jurisdiction or are necessary in its judgment to prevent injury to the public or to competitors *pendente lite*. The findings of the Commission as to the facts, if supported by evidence, shall be conclusive. To the extent that the order of the Commission is affirmed, the court shall thereupon issue its own order commanding obedience to the terms of such order of the Commission. If either party shall apply to the court for leave to adduce additional evidence, and shall show to the satisfaction of the court that such additional evidence is material and that there were reasonable grounds for the failure to adduce such evidence in the proceeding before the Commission, the court may order such additional evidence to be taken before the Commission and to be adduced upon the hearing in such manner and upon such terms and con-

ditions as to the court may seem proper. The Commission may modify its findings as to the facts, or make new findings, by reason of the additional evidence so taken, and it shall file such modified or new findings, which, if supported by evidence, shall be conclusive, and its recommendation, if any, for the modification or setting aside of its original order, with the return of such additional evidence. The judgment and decree of the court shall be final, except that the same shall be subject to review by the Supreme Court upon certiorari, as provided in section 347 of Title 28.

Jurisdiction of court.

(d) The jurisdiction of the circuit court of appeals of the United States to affirm, enforce, modify, or set aside orders of the Commission shall be exclusive.

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CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, A. D. 1950.

No. 380

M. H. JACOBS CO., INC., M. H. JACOBS, SIDNEY A. TARRSON, B. B. PEN CO., INC., ALBERT J. TARRSON and THE TARRSON COMPANY,
Petitioners,

vs.

STAHLY, INC.,
Respondent.

RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

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The Scheffer Press, Inc.—ANdover 3-6850

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RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

Defendants' petition for writ of certiorari seeks a review of decisions of the Court of Appeals for the Seventh Circuit affirming, but modifying, the decision of the District Court dismissing a complaint on a motion for summary judgment. The defendants originally made a motion to dismiss (R. 11) which they later converted to a motion for summary judgment (R. 51). (The motion is sometimes erroneously referred to in the record as a motion to dismiss but that it was a motion for summary judgment is admitted by petitioners here. (Petition, page 3).)

The District Court held that plaintiff had no rights with respect to the subject matter of the suit and dismissed the

case completely. The Court of Appeals held that plaintiff had waived its trade-mark and fair trade rights with respect to the subject matter of the controversy but held (R. 102) that the District Court should enjoin the defendants from offering "admittedly defective razors" to the public without notice that they were defective and were not guaranteed by plaintiff which had spent $300,000.00 advertising its razors and stressing its guarantee. (R. 54).

Although it is undisputed that the razors were not guaranteed by plaintiff, petitioners challenge the right of the Court of Appeals to modify the District Court's judgment because of what they term a qualified admission as to the defective condition of the razors "made by petitioners for the limited purpose of their motion to dismiss" (Petition, page 9).

We submit that petitioners completely overlook the fact that the motion to dismiss was converted to a motion for summary judgment and that such a motion is not in the nature of a demurrer. On the contrary it is a substitute for a trial of the case on the merits with respect to the uncontested fact issues raised by the complaint and other pleadings plus supporting material, as the petitioners' affidavits introduced here. If any facts material to the motion are in dispute, the motion may not be granted. In arguing their motion for summary judgment and the appeal therefrom, petitioners admitted that the razors were defective. They are bound by this admission. Whether or not they qualified the admission is immaterial so long as their motion for summary judgment was granted. It was.

Petitioners' motion could be considered in the nature of a demurrer only if it remained under Section 12 F.R.C.P., in which case the admission might have had the limited effect claimed for it. *Wyman* v. *Wyman* (CCA 9) 109 F2d. 473, *U. S.* v. *Hole*, 38 F. Supp. 600 (D.C. Mont.). (The

record (R. 51) shows the conversion of the motion from Section 12 to Section 56 F.R.C.P. and furthermore includes voluminous affidavits filed in support of the motion by petitioners. Such supporting material is proper only on a motion for summary judgment. It is improper on a motion to dismiss. *Thermo-Plastics Corp.* v. *International P. Corp.*, 42 F. Supp. 408 (D.C. N.J.).) Having elected to go under the summary judgment section F.R.C.P. 56, the admission is binding upon petitioners at least as long as the order on the motion is not reversed. It has not been reversed.

In *Fountain* v. *Filson*, 336 U. S. 681, the case relied upon by petitioners, this Court reversed a decision of the Court of Appeals for the District of Columbia which in turn reversed a judgment of the District Court of the District of Columbia on a motion for summary judgment. The Court of Appeals in that case, however, did not affirm or modify the District Court's order but reversed an order in favor of one party and substituted for it another order which (336 U. S. 683)

> "was made on appeal on a *new issue* as to which the opposite party had no opportunity to present a defense before the trial court." (Italics ours.)

In the present case plaintiff has consistently maintained that it is unlawful for defendants to sell its razors without notice as to the lack of guarantee by plaintiff and without notice as to the defective condition of the razors. (R. 85 and 132) Thus there was no new issue upon which the opinion of the Court of Appeals was predicated.

Moreover, defendants' motion for summary judgment was not for partial relief under Section 56(d). Such a motion is not appealable. *Leonard* v. *Socony Vacuum Oil Co.*, (CCA7) 130 F. 2d 535. Defendants' motion was directed to the entire complaint as is shown by the fact that

the order thereon dismissed the complaint and was appealed; no objection was raised by the defendants to the appeal. In such cases it is clear that, in the absence of new issues, the Court has the authority to grant whatever relief is warranted under the circumstances. See *Hooker* v. *New York Life Insurance Co.*, 66 F. Supp. 313 where the District Court for the Northern District of Illinois, Eastern Division, said, page 318:

> "There remains the question of the proper disposition of the case, since the plaintiff has not made a cross-motion for summary judgment. If the plaintiff had made such a motion, and if the defendant had admitted the facts which it so strongly urges, by way of affidavits, in favor of its motion, it would be clear that the plaintiff would be entitled to summary judgment. Since the purpose of the summary judgment procedure under Rule 56 is to expedite the disposition of actions in which there is no genuine issue of fact requiring trial, it would seem that the court can properly enter a summary judgment in favor of the party entitled to it. 3 Moore, Federal Practice, Section 56.02.
>
> 'Rule 54(c) gives the court the power to enter the final judgment to which the prevailing party is entitled, even if the party has not demanded such relief in his pleadings, except in default judgment cases. The theory is that the form of the pleadings should not place a limitation upon the power of the court to do justice. So where one party has invoked the power of the court to render a summary judgment against his adversary, it is reasonable that this invocation gives the court power to render a summary judgment for his adversary if it is clear that the case warrants that result.' "

Furthermore, an order on *demurrer* is normally not final as to the subject matter of the controversy. It merely is a holding that, *as pleaded,* the plaintiff has no cause of

action. The pleadings may usually be amended to state a cause of action in another form. Judgment on a motion for summary judgment, as here, is final and *res judicata* as to the subject matter of the controversy.

Petitioners next complain that the decision appealed from is in conflict with the decision of this Court in *Mosler Safe Co.* v. *Ely-Norris Safe Co.*, 273 U. S. 132, that of the Sixth Circuit Court of Appeals in *American Washboard Co.* v. *Saginaw Mfg. Co.*, 103 Fed. 281 and that of the Second Circuit Court of Appeals in *California Apparel Creators, et al.* v. *Wieder of California, Inc., et al.*, 162 F. 2d 893. In the cited cases it was held that, because the respective plaintiffs had *never* had a cause of action against the defendants, the Courts had no jurisdiction over the subject matter of the complaints, *i. e.*, there were no adverse parties with adverse interests.

In the present case all that the Court held was that the plaintiff had waived its remedy for violation of its clearly adverse rights by a letter of consent. (R. 101) Once having had jurisdiction, however, the Court had the right to provide for whatever order was necessary under the circumstances to protect the public from fraud and deception. It is clear that one of the duties of the Courts in trade-mark infringement and unfair competition cases is for such protection of the public.

Rosenburg Bros. & Co. v. *Elliott*, (CCA 3) 7 F.2d 962.

Goldwyn Pictures Corp. v. *Goldwyn*, (CCA 2) 296 Fed. 391, 401.

General Baking Co. v. *Gorman*, (CCA 1), 3 F.2d 891, 893.

Metropolitan Opera Association v. *Metropolitan Opera Association of Chicago*, D. C. Illinois, 81 F. Supp. 127, 132.

The situation is somewhat analogous to a suit in a Federal Court between citizens of the same state wherein the plaintiff relies on a Federal statutory remedy and a common law remedy resulting from the same transaction. In such suits, the Court having jurisdiction because of the Federal statute will retain jurisdiction over the cause of action even where the Federal cause of action fails. *Hurn* v. *Oursler,* 289 U. S. 238.

Furthermore the Federal Courts have uniformly issued orders protecting the public from the likelihood of deception in cases for trade-mark infringement and unfair competition even where the defendants were not guilty of either. The case of *Horlick's Malted Milk Corp.* v. *Horlick,* 143 F.2d 32 is directly in point. In that case the Court held that there was no unfair competition and no trade-mark infringement, but nevertheless provided for an injunction requiring the defendant to label his goods in a certain manner.

In *Anheuser-Busch* v. *Du Bois Brewing Co.,* 175 F. 2d 370 (CCA 3) the Court held the plaintiff's laches and acquiescence were so gross as to cause forfeiture of all rights under the trademark in suit. However, because the defendant's past use of the trade-mark had been confined to a certain limited territory, the Court in its opinion stated that the defendant (page 377)

> "should not expect to extend its use of that name to other areas with legal impunity."

Finally the petitioners allege that in view of the Court of Appeals holding that the plaintiff had waived its rights or remedies, there was no party adverse to the defendants in the case and therefore the injunction could not issue. If this were correct defendants would have no right to petition for certiorari; the cases cited by petitioners on page

20 of their brief hold that such a petition is not proper in the absence of adverse parties with adverse claims.

The petition for writ of certiorari should be denied.

Respectfully submitted,

JULES L. BRADY,
JOHN REX ALLEN,
Counsel for Respondent.

Chicago, Illinois,
November 20, 1950.